SHIPOWNERS CLAIMS BUREAU, INC., MANAGER
ONE BATTERY PARK PLAZA - 31ST FLOOR NEW YORK, NEW YORK 10004 USA
TEL: +1.212.847.4500 FAX: +1.212.847.4599 WEB: WWW.AMERICAN-CLUB.COM

NOVEMBER 20, 2015

CIRCULAR NO. 41/15

TO MEMBERS OF THE ASSOCIATION

Dear Member:

RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
RELEASE CALLS.
PREMIUM REQUIREMENTS FOR THE 2016 POLICY YEAR.

At its meeting yesterday in New York, your Board reviewed the American Club's present and prospective circumstances by reference to a variety of factors. These included the overall economic climate, the outlook for the freight and investment markets, and the implications of emerging trends within the P&I environment.

Your Board also reviewed the development of closed and open policy years and, having considered the Club's position in light of these several perspectives, made a number of important decisions, including the determination of premium requirements for the 2016 policy year.

Recent Club performance

Over the last twelve months, the "churn effect" (the term applied to the reduction of premium volume as older, higher-rated vessels are replaced by newer, lower-rated ships) has had a more subdued impact upon revenue than was the case from 2012 through 2014.

Accordingly, although it declined somewhat at February 20, annualized premium income for 2015 has increased over the intervening period. Entered tonnage has remained stable, while rates per ton have shown a welcome degree of firmness year-on-year. Indeed, the average net rate per ton for P&I entries is at present only two percent lower than it was twelve months ago, despite unrelenting pressure on premium pricing over that time.

As to claims, the Club's retained exposures have developed favorably over the first nine months of the current policy year. Claims for the Club's own account for 2015 are over 40% lower than they were for 2014 at the same point of emergence. The year remains highly immature, of course, but early indicators are positive.

So far as the Pool is concerned, the 2013 and 2014 policy years are developing more favorably than 2011 and 2012, while claims for 2015, albeit at an early stage, are also emerging at a moderate pace. However, since large P&I losses tend to be volatile, it cannot be said with certainty whether the current year will ultimately be less costly for pooling purposes than its predecessors, but present trends are encouraging.

On the investment front, the Club's portfolio, as of mid-November, 2015, had generated a year-to-date return of 24 basis points, only slightly above break-even. This compares with a 4% yield at the same point twelve months ago. Although market uncertainties persist, particularly in regard to continuingly sluggish global growth, it is hoped that investment earnings will gain greater momentum over the months ahead.

Development of closed and open policy years

Closed policy years

The development of closed years continues as expected. The excess of assets over liabilities for closed years, which constitutes the Club's contingency fund, stood at $76.2 million as of September 30, 2015, a figure some $6 million lower than it was at the end of the second quarter of 2015 ($82.2 million).

The reduction in the contingency fund is mainly due to unrealized losses sustained within the Club's investment portfolio consequent upon a late summer market correction. However, a respectable proportion of those losses has since been recouped as investment conditions have improved over recent weeks.

Open policy years

<u>2013</u>

The 2013 policy year continues to develop in accordance with expectations. Projected losses for the Club's own account have declined over the last twelve months, although the level of Pool claims has risen slightly.

Although the year remains in deficit by about $5 million, this shortfall is expected to reduce as the year moves further toward closure. This is scheduled to take place, without call in excess of the original estimate, in June 2016.

In the meantime, the release call margin for 2013 will be reduced from 20% to 7.5% of estimated total premium.

<u>2014</u>

2014 is emerging much in line with its predecessor year at the same stage of development. Retained claims are tracking at levels very similar to those of 2013, while Pool exposures are lower.

Overall, the deficit for the year has improved from about $13 million to about $9 million over the twelve months since September 30, 2014. However, there are grounds for optimism that the shortfall will reduce as the year moves toward closure, scheduled for the first half of 2017.

In the meantime, the release call margin for 2014 will be reduced from 20% to 12.5% of estimated total premium.

<u>2015</u>

As mentioned above, both the Club's retained losses, and those to which it is exposed under the Pooling Agreement, are better than those of previous years at the same point of development. While currently in deficit – mainly because a conservative projection of ultimate losses is being maintained – the year may be expected to improve over time as it gains further maturity.

In the meantime, the release call margin for 2015 will remain at 20% of estimated total premium as originally mandated, but the position will be reviewed again within the first half of 2016.

Release calls

Following the European Commission's decision during 2012 to conclude its investigations into the International Group of P&I Clubs' claims sharing and reinsurance arrangements, all clubs have agreed to publish, at least annually, a statement of their release call percentages, including factors taken into account in calculating those percentages by reference to the actual assessment of enterprise and other risks.

The current release call margins for open years are set out above. As will be clear from the discussion of individual years' results, which represent the context for those margins, considerable thought has been devoted by your Board, in consultation with your Managers, in calibrating them.

Specifically, the following factors were taken into account in setting relevant release call percentages: premium risk, catastrophe risk, reserve risk, market risk and counterparty default risk, as well as the exposure of the Club generally to the wide variety of operational risks which, over time, it needs to consider in determining both its basic premium and, more particularly, release call needs in regard to all open policy years.

Premium requirements for the 2016 policy year

In light of all the circumstances reviewed above, your Board believes that many of the trends it identified last year will continue to influence the cost of P&I cover over the forthcoming period.

It is hoped that the outlook for shipping will get better as the global economy expands into 2016 and beyond. However, apart from the tanker sector and certain other specialist trades, the freight markets have yet to experience any sustained improvement.

As to the prospects for P&I generally, pressure on premium rating is likely to continue, given the difficulties facing shipowners at large. On the claims front, the severity of attritional losses will probably increase, even if their frequency continues to diminish, while the size and volatility of large claims are unlikely to abate.

In regard to future investment earnings, while it is to be hoped that the capital markets will stabilize into 2016 and beyond, returns are likely to remain at comparatively modest levels over the months ahead.

It is probable, too, that the growing absorption of risk by individual clubs – which has led to an increase in the individual retention of Group clubs under the Pooling Agreement from $9 million to $10 million for 2016 – as well as by the Group itself, will continue over time, placing a need on all clubs to ensure that the risks they accept are properly assessed and appropriately priced.

Taking these, and other, considerations into account, the decisions set out below are intended to reflect a measured view of the business landscape which lies ahead, balancing the related perspectives of Members individually and of the Club as a whole. Accordingly, your Board has adopted the following policy as to premium rating, and the application of deductibles, for the year commencing February 20, 2016.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to be subject to a general increase of 2.5%.
- Any additional costs of the Club's reinsurance arrangements for 2016 to be charged separately.
- Such premium to be defined as estimated total premium for 2016, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2016.
- Premium (call) to release to be charged as an additional margin of 20% of estimated total premium for the year.

Mutual Freight, Demurrage and Defense (FD&D) Insurance

- All expiring estimated total premium to have no (i.e. a zero) general increase.
- Additional costs, if any, of the Club's reinsurance arrangements for 2016 to be charged separately.
- Such premium to be defined as estimated total premium for 2016, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in two equal installments due March 20 and August 20, 2016.
- Premium (call) to release to be charged as an additional margin of 20% of estimated total premium for the year.

Fixed Premium Protection and Indemnity and Damage to Hull (DTH) Insurance

- All fixed premium P&I and DTH entries (e.g. those for charterers' risks) to be subject to a general increase of 2.5%.
- Any additional costs of the Club's reinsurance arrangements for 2016 to be charged separately.

Fixed Premium Freight, Demurrage and Defense Insurance

- All fixed premium FD&D entries (e.g. those for charterers' risks) to have no (i.e. a zero) general increase.
- Additional costs, if any, of the Club's reinsurance arrangements for 2016 to be charged separately.

Following the application of any increase (or otherwise) as may be required in accordance with the foregoing, Members' premium rates will be reviewed against the background of their loss records, vessel-type factors and other relevant matters, including the risk-based rating assessment of Members' individual circumstances, in consequence of which further adjustments may be made as appropriate.

In addition, expiring deductibles for all classes of business will be subject to the following changes for the forthcoming policy year, irrespective of other factors as might inform the modification of deductible levels in the case of individual vessels or fleets:

- claims arising under the provisions of Class I, Rule 2, Section 14.4 will be subject to a minimum deductible of $50,000 any one incident; and

- for vessels over fifteen (15) years of age, claims arising under the provisions of Class I, Rule 2, Section 13 will be subject to a minimum deductible of $50,000 any one incident; and

- all expiring deductibles of less than $10,000 will be increased by $1,000 in every case, save that there will be a minimum deductible for all claims in respect of crew of $7,500.

It will also be a condition for renewal that:

- all premiums and other sums due to the Club be fully paid up-to-date prior to February 20, 2016 as a condition of continuing cover; and

- all outstanding survey etc. requirements be completed prior to February 20, 2016 as a condition of continuing cover.

Summary

Price increases, however modest, are never welcome, particularly at a time when the freight markets continue to struggle. Nevertheless, your Board remains resolute in its commitment to consolidate the financial standing of the American Club, particularly in light of the progress it has made in recent years.

To recapitulate in brief the specific decisions reached, and described in greater detail above:

- 2013 much improved by comparison with the position twelve months earlier. However, some contingency fund subvention may be required in due course, although final outturn may be expected further to improve toward closure within the first half of 2016. Release call reduced from 20% to 7.5% over and above the current estimated total premium for the year.

- 2014 exhibiting a deficit, but likely to improve toward closure expected in the first half of 2017. Release call reduced from 20% to 12.5% over and above current estimated total premium for the year.

- 2015 developing well within initial expectations, release call to be maintained, for the time being, at 20% over and above current estimated total premium for the year, but position to be reviewed during the first half of 2016.

- 2016 renewal to feature a 2.5% general increase on expiring estimated total premium for mutual P&I entries, plus any additional costs of the Club's reinsurances, premium to be characterized as estimated total premium for the year and to be debited in four equal installments. Release call 20% of estimated total premium.

- 2016 renewal to feature no (i.e. a zero) general increase in premium for both mutual and fixed FD&D covers, but any additional costs of the Club's reinsurances to be charged separately. Release call 20% of estimated total premium for mutual entries.

- 2016 renewal also to feature a 2.5% general increase in premium for fixed P&I and Damage to Hull (DTH) covers, plus any additional costs of the Club's reinsurances.

- 2016 renewal also to feature increases in, and minimum levels of, certain deductibles, as well as of deductibles for certain P&I risks, as specified above.

Your Managers will be in contact with individual Members with their proposals for renewal over the forthcoming weeks. If, in the meantime, any Members should require clarification in regard to the above, or generally, your Managers will be pleased to respond.

Yours faithfully,

Joseph E.M. Hughes

Joseph E.M. Hughes, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB